

Internal Revenue Service

Department of the Treasury

District
Director

P.O. Box 1680, GPO Brooklyn, N.Y. 11202

Date: JUN 2 1966

Employer Identification Number:

Person to Contact:

Contact Telephone Number:

Refer Reply to:

CERTIFIED MAIL

Dear Applicant:

The evidence presented disclosed that you were incorporated on [REDACTED] under the not for profit corporation law in the state of [REDACTED].

The purposes for which the corporation was formed are "to encourage the sport of boating; to promote the science of seamanship and navigation; and to provide and maintain a suitable club-house and anchorage for the use and recreation of its members.

According to the financial information submitted with your application 1024 you derived a substantial amount of income from the sale of gasoline use and dock fees in [REDACTED]. Of a total gross income of \$[REDACTED] over [REDACTED]% or \$[REDACTED] was derived from the sale of gasoline, ice and docking fees. The breakdown of these sales are as follows:

	Members	Non-Members
Gasoline Sales	[REDACTED]%	[REDACTED]%
Ice sales	[REDACTED]%	[REDACTED]%
Dock fees	[REDACTED]%	[REDACTED]%

The activities of your organization appear to be directed mainly, toward non-members.

Section 501(c)(7) of the Code provides exemption to clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Public Law 94-568 amended IRC 501 to reflect a twofold change under IRC 501(c)(7). First, it makes it clear that a social club may receive some investment income without losing its exempt status. Second, it permits a higher level of income from nonmember use of club facilities than was previously allowed.

In addition, Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public Law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. Thus a social club may receive investment income up to the full 35 percent amount of gross receipts. If a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

Revenue Ruling 66-149, 1966-1 C.B. 146 holds that a social club is not exempt from Federal income tax as an organization described in section 501(c)(7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments which it owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for the club.

Like the organization in Revenue Ruling 66-149, your organization derives a substantial part of its income from non member sources such as from the sale of ice and gasoline. In addition, non member income has constituted more than the 15 percent limitation on gross receipts as stated in Public Law 94-568.

Accordingly, we conclude that you do not meet the requirements for exempt status under section 501(c)(7) of the code and propose to deny your request for exemption under that section.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may protest in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completions.

If we do not hear from you within that time, this determination will become final.

Sincerely yours,



District Director

Enclosure: Publication 892